

IN THE UNITED STATES PATENT AND TRADEMARK OFFICE

Advanced Notice of Proposed Rulemaking on Changes Under Consideration to Discretionary
Institution Practices, Petition Word-Count Limits, and Settlement Practices for America Invents Act
Trial Proceedings Before the Patent Trial and Appeal Board

Docket No. PTO–P-2020-0022

COMMENTS OF ENGINE ADVOCACY

Statement of Interest

Engine Advocacy is a non-profit technology policy, research, and advocacy organization that bridges the gap between policymakers and startups. Engine works with government and a community of thousands of high-technology, growth-oriented startups across the nation to support the development of technology entrepreneurship through economic research, policy analysis, and advocacy on local and national issues. We appreciate the opportunity to submit these responses to the U.S. Patent and Trademark Office's advance notice of proposed rulemaking (ANPRM) regarding proposed changes to the discretionary institution practices.¹

Startups need balanced intellectual property systems that encourage and incentivize innovation but also are able to course correct if—and, inevitably, when—intellectual property protections are used in inappropriate and anticompetitive ways. We are incredibly concerned that the proposals outlined in the ANPRM would dramatically decrease the efficacy of the *inter partes* review (IPR) process, opening up members of the startup ecosystem to more of the abusive patent assertion practices that led to the passage of the America Invents Act and the creation of the Patent Trial and Appeal Board (PTAB).

Comments

I. Startups are especially vulnerable to low-quality patents that are easily weaponized and threaten innovation and entrepreneurship in communities across the country.

Low quality patents impact innovation broadly, but they are especially problematic for the startup ecosystem, made up of high-growth, technology-enabled companies that span all industries and communities across the country. Startups have limited time and resources, leaving them ill equipped to navigate the very time- and resource-intensive patent system. The average seed-stage startup—already a successful venture that has attracted outside funding, a stage many startups do not reach—has about \$55,000 to spend per month on all of its expenses, including payroll, customer acquisition, research and development, and overhead costs.² These limited resources make startups especially vulnerable to bad faith patent assertion activity. As we explained in our comments to the Office on discretionary denials in 2020:³

¹ Advanced Notice of Proposed Rulemaking on Changes Under Consideration to Discretionary Institution Practices, Petition Word-Count Limits, and Settlement Practices for America Invents Act Trial Proceedings Before the Patent Trial and Appeal Board, 88 Fed. Reg. 24503 (April 21, 2023)

² See, e.g., *the State of the Startup Ecosystem*, Engine 19-20 (April 2021).

<https://static1.squarespace.com/static/571681753c44d835a440c8b5/t/60819983b7f8be1a2a99972d/1619106194054/The+State+of+the+Startup+Ecosystem.pdf>.

³ *Response of Engine Advocacy to Request for Comments on Discretion to Institute Trials Before the Patent Trial and Appeal Board*, Docket No. PTO-C-2020-0055, at 3-4 (Dec. 3, 2020),

https://static1.squarespace.com/static/571681753c44d835a440c8b5/t/5fca4fad1a258d244fec7ba7/1607094191551/20.12.03_Comments+to+Docket+PTO+C+2020+0055.pdf

“Low-quality patents operate in ways that are particularly harmful for startups. Because startups operate on thin margins and do not have time or resources to spare defending frivolous patent assertions, they are frequent targets of patent assertion entities...[which] have become notorious for wielding low-quality patents to coerce startups into paying just to avoid the high cost of proving invalidity in court. ... Being accused of infringing low-quality patents affects startups in broad and sweeping ways: in the face of an abusive patent demand it is harder for startups to compete, gain market share, attract customers, and attract investors.⁴ Startups report significant operational impacts, like changes in business strategy, business or business line exits, delays in hiring, and reduced valuations upon receipt of demand letters ... Ultimately, the assertion of low-quality patents can unfortunately be (and has been) the reason some startups close up shop—especially companies that cannot afford the cost or weather the duration of a patent validity challenge.⁵”

In contrast to the incredibly limited resources of the average startup, engaging with the patent system in any capacity costs a significant proportion of a startup’s limited budget, and patent assertion activity is especially expensive; challenging a patent via IPR costs hundreds of thousands of dollars, while attempting to defend against a patent infringement lawsuit costs millions of dollars.⁶ Even filing an IPR petition is several months of runway for a startup; defending against a lawsuit is easily bankruptcy-inducing.

If these costs are out of reach for the average startup, they are even more so out of reach for the startups launched by underrepresented founders, including founders of color and women founders. At every step, underrepresented founders face an uneven playing field in raising much-needed capital as compared to their white, male counterparts. Due to systemic barriers, underrepresented founders are less likely to have personal and generational wealth to invest in their companies, they’re less likely to have wealthy networks to tap for early “friends and family” investment rounds, and they receive a fraction—or for intersectional founders, a fraction of a fraction—of venture capital funding.⁷ Changes that make it more difficult and expensive for startups to launch and grow, including changes to the patent system, will most impact these founders who already have to do more with less.

⁴ See, e.g., *Startups Need Comprehensive Patent Reform Now*, Engine 7-14, available at <http://static1.squarespace.com/static/571681753c44d835a440c8b5/57323e0ad9fd5607a3d9f66b/57323e14d9fd5607a3d9faec/1462910484459/Startup-Patent-Troll-Stories1.d.pdf?format=original>, Robin Feldman, *Patent Demands & Startup Companies: The View From the Venture Capital Community*, 16 Yale J.L. & Tech. 236, 280 (2014) (investors report that an existing patent demand against a startup as a deterrent in deciding whether to invest).

⁵ See, e.g., Engine, supra note 4, *Arlington Startups Founder Testifies Before Congress About Patent Trolls*, ARL Now (Mar. 27, 2015), <https://www.arlnow.com/2015/03/27/arlington-startup-founder-testifies-before-congress/> (referring to “college students developing a product in a startup incubator who were threatened with a lawsuit by a patent troll” and “folded their company because they couldn’t even pay the licensing fee . . . that trolls ask for to avoid a lawsuit”).

⁶ Am. Intellectual Prop. Law Ass’n, 2021 Report of the Economic Survey 62 (2021)

⁷ Matt O. Dhaiti, Jamie Dohopolski, & Phillip Malone, *Engine’s Response to the Call for Comments on Expanding American Innovation*, Engine (Feb. 23, 2021), <https://bit.ly/2NrnfpD>.

The ANPRM notes multiple times the value of clarity and certainty in interacting with the patent system. That's especially true for startups, which don't have the same ability to navigate regulatory and legal processes as their large, established counterparts. The best way for the USPTO to increase clarity and consistency around patents is to work to ensure that only high quality patents are issued. The ANPRM appears to reflect complaints from some stakeholders that PTAB appeal processes unfairly introduce uncertainty into the already expensive and time consuming process of obtaining a patent. Making it harder to challenge patents will undoubtedly create more certainty for those holding potentially invalid patents, but leaving low-quality patents in the system will dramatically increase uncertainty for the innovators and entrepreneurs who find themselves on the receiving end of meritless patent assertion activity, all of whom should also be considered USPTO stakeholders. The threat to innovation and the imbalance in the system is not a result of PTAB processes; it's a result of the fact that the USPTO, despite its efforts, issues low-quality patents. Engine has commented at length on ways to improve patent quality, including increasing examining time, expanding prior art considerations, and increasing opportunities for third-party input, and we hope the agency continues to prioritize improving patent quality.⁸

III. Startups benefit when the PTAB invalidates low-quality patents, even when they're not a party to the proceeding.

As discussed above, startups have incredibly limited time and resources and often need to prioritize things like finding customers and making payroll over interacting with the USPTO. They often lack the time and resources to file IPR petitions to challenge low-quality patents in their space that could harm their business in the future. While a startup might be unable to file a petition challenging a patent themselves—or might even be unaware that a low-quality patent will impact them and can be challenged through an IPR petition—startups will routinely benefit when others are able to get that patent invalidated.

As we explained in our comments to the Office on discretionary denials in 2020:⁹

“[T]here are many examples where one IPR petition could (or did) benefit numerous others—saving emerging tech companies and small businesses that were being accused of infringement. Merely by way of example: in one IPR, the invalid patent was already being asserted in ten lawsuits against multiple defendants who were being accused of infringement based on using the Google Play store to distribute an app;¹⁰ in another IPR, the invalid patent was being asserted against small podcasting entities in a way that could have

⁸ *Response of Engine Advocacy to Request for Comments on USPTO Initiatives To Ensure the Robustness and Reliability of Patent Rights*, Docket No. PTO-P-2022-0025, at 5-6 (Feb. 1, 2023), https://static1.squarespace.com/static/571681753c44d835a440c8b5/t/63daa6decc3075607011a003/1675273950899/2023.02.01_Engine+Comments+on+Robustness+and+Reliability+Docket+No+PTO-P-2022-0025.pdf.

⁹ *Supra* note 3, at 7

¹⁰ *Distinctive Developments, Ltd. v. Uniloc USA, Inc.*, IPR2013-00391, Paper 38 (PTAB Dec. 3, 2014); *see also, e.g., Uniloc USA Inc. v. Laminar Research, LLC*, No. 6:12-cv-468 (E.D. Tex. July 20, 2012) (complaint alleging infringement based on making Android based apps available on cell phones and/or tablets).

threatened everyone in the podcasting industry;¹¹ yet another IPR was used to invalidate a patent that had been asserted against more than 100 defendants in the sports tech industry;¹² and another IPR challenged patents being asserted against open source software users.¹³ IPR also allows larger companies that make technology to efficiently weed out invalid patents to protect their users and customers.¹⁴

Engine is concerned that many of the proposals in the ANPRM would result in the denial of a wide range of petitions which would allow low-quality patents to remain in the system, leaving startups vulnerable to meritless patent assertion attempts. For instance, Petcube Co-Founder Andrey Klen discussed how his startup benefited when a larger company was able to get a low-quality patent invalidated:

“Like any startup, though, we have had a few run-ins with patent trolls, but those have been resolved as they often are. For example, a patent troll withdrew a claim against us after a larger, more-established company stepped in to help. The patent troll tried to sue us on the premise that they invented basic laser tracking technology. But that patent was overthrown after another company, which was also accused of infringement, challenged its invalid claims. Young companies worry about attacks from patent trolls a lot, and it could have turned out a lot worse than it did.”¹⁵

If there are low-quality patents in the system that can be weaponized, especially against startups, the USPTO should take every opportunity to reevaluate those patents, and it should be wary of making changes that will make it more likely that any meritorious petition be denied.

IV. PTAB is a better venue to determine patent eligibility than district courts.

The PTAB is the best place to adjudicate patent quality issues, and proposals in the ANRM that would shift patent validity questions to the federal court system would make it more difficult, complex, and expensive to invalidate weak patents. As noted in the ANPRM, the agency has heard from stakeholders that the PTAB is the preferred venue to adjudicate patent quality questions because “it is a less expensive, more expert forum with legally and technically trained judges” and

¹¹ Daniel Nazer, *EFF Wins Final Victory over Podcasting Patent*, Elec. Frontier Found. (May 14, 2018), <https://www.eff.org/deeplinks/2018/05/eff-wins-final-victory-over-podcasting-patent>.

¹² Aaron L. Parker et al., *How Sports Tech Companies Can Fight Back Against Patent Trolls*, Finnegan (July 27, 2018), <https://www.finnegan.com/en/insights/articles/how-sports-tech-companies-can-fight-back-against-patent-trolls.html>.

¹³ Bart Eppenauer, *Sound View Escalates Patent Assault on Open Source Software with New Wave of Lawsuits*, Cloud IPQ (Apr. 30, 2019), <https://cloudipq.com/2019/04/30/sound-view-escalates-patent-assault-on-open-sourcesoftware-with-new-wave-of-law-suits/>.

¹⁴ See, e.g., *HP Inc. v. MPHJ Tech. Invs., LLC*, 817 F.3d 1339, 1342 (Fed. Cir. 2016) (after letters were “sent . . . to numerous small businesses, alleging that those businesses likely infringed the '381 patent,” and “[b]ecause the letters were sent to users of HP's multi-function printers, HP petitioned for IPR of the '381 patent”).

¹⁵ *#StartupsEverywhere Profile: Andrey Klen, Co-Founder, Petcube*, Engine (Jan. 6, 2023), <https://www.engine.is/news/startupseverywhere-sanfrancisco-ca-petcube>.

because it is bound by statutory timelines. These are many of the reasons Congress cited in creating the PTAB as “a more efficient system for challenging patents that should not have issued” when passing the America Invents Act.¹⁶

Deferring to litigation playing out in district courts—where outcomes are determined on different timelines and dependent on varying juries—by denying timely petitions where there are parallel district court proceedings underway ensures that it will cost significantly more time and money to get low-quality patents invalidated and risks leaving low-quality patents in force. As Joshua Montgomery, Founder of Mycroft AI—a startup was threatened with a patent infringement lawsuit and expected to spend millions to win the case—explained, “[w]hen IPR isn’t there to invalidate a bad patent, startups are looking at \$2 million in costs. That creates a big disincentive to fight back against frivolous claims.”¹⁷

V. The PTO is correct to consider options for small and under-resourced entities, but the rules must be carefully crafted and consider the needs of all who are truly small and under-resourced.

Engine appreciates the USPTO’s recognition that “providing support for startups, small businesses, independent inventors is one of the major priorities” for the Office, and we hope that includes both the startups and small businesses that hold patents as well as the vast majority of startups and small businesses that do not hold patents but still find themselves directly and indirectly impacted by the USPTO’s policies, including around discretionary denials of IPR petitions.

If the USPTO is considering denying petitions filed against patents issued to those who qualify for micro entity and small entity status, it must ensure that the patent holders are, in fact, micro and small entities that are funding and directing their own patent assertion activities, including litigation. If a “small” patent holder is initiating patent assertion litigation that is funded and potentially directed by a well-resourced third party, it should not be considered a small or micro entity for the purpose of discretionary denial consideration.

It is increasingly common in recent years for some “small” patent holders to have third-parties fund—and even coordinate—patent assertion litigation on their behalf,¹⁸ which distorts the incentives around filing patent assertion lawsuits and, given the obscurity of the source of funding, limits the efficacy of the remedies for abusive litigation practices.¹⁹ Even the federal judges overseeing that patent litigation activity have faced difficulties getting plaintiffs to disclose

¹⁶ See, e.g., H.R. REP. 112-98, 39-40

¹⁷ *#StartupsEverywhere Profile: Joshua Montgomery, Founder, Mycroft AI*, Engine (April 23, 2021), <https://www.engine.is/news/startupseverywhere-kansas-city-mo-mycroft>

¹⁸ *At least 25% of the last 3 years NPE litigation caused by Litigation Investment Entities (LIEs)*, Unified Patents (Feb. 21, 2023), <https://www.unifiedpatents.com/insights/2023/2/21/litigation-investment-entities-the-investors-behind-the-curtain>

¹⁹ Abby Rives, *Improving the patent system through greater transparency*, Engine Advocacy (Dec. 12, 2022), <https://engineadvocacyfoundation.medium.com/improving-the-patent-system-through-greater-transparency-1d258e91d46f>

third-party litigation funding.²⁰ That should raise questions about how well the PTAB, in the course of considering whether to deny a petition against a patent held by a small or micro entity, will be able to suss out when a deep-pocketed funder is supporting the litigation being brought by a purportedly “small” entity.

Additionally, the USPTO should seek to protect under-resourced parties on both sides of proceedings by ensuring that petitions filed by startups, small businesses, and independent inventors are automatically disqualified from being discretionarily denied, absent extreme circumstances. As discussed above, the cost of filing a petition in terms of both time and money is significant when compared to the average startups’ resources, and creating more uncertainty over whether their petition will be granted is a substantial disincentive against undertaking those costs. More startups would be able to undertake those costs if it were effectively ensured that petitions from under-resourced petitioners would not be subject to discretionary denials and would always be decided on the merits of the petition.

VI. The “substantial relationship” test runs the risk of sweeping in startups that have relationships with—but are not largely directed by—their investors.

The USPTO should not advance any proposals that would require a startup to document and disclose all ownership interests, including those unrelated to the startup’s activity in front of the PTAB, especially as a petitioner. Startups have a vast and complex network of business relationships, including with potentially dozens of angel and venture capital investors. Investors’ relationships to the startups they invest in range dramatically from incredibly informal to advisory, and they are not specifically tied to a startup’s activity in front of the PTAB. To deny a startup’s challenge of a low-quality patent, merely because there is another challenge to the patent from a different company with one shared investor among many, would risk leaving low-quality patents in force due to an incorrect assumption of coordination between effectively unrelated parties.

In other contexts, the federal government has previously attempted to identify relationships between small businesses and the deep-pocketed large entities they have ties to, but many of those attempts have inadvertently swept in startups and small businesses that are not meaningfully directed by the larger entities. Take, for instance, the role the Small Business Administration’s (SBA) “Affiliation Rule” played during the administration of the Paycheck Protection Program. While the program had the laudable goal of supporting true small businesses at the onset of the COVID-19 pandemic, initial confusion over the applicability of the SBA’s rule regarding affiliates—a business could not be considered a “small business” if its employees, combined with the employees of its “affiliates,” including many investors, numbered more than 500—meant many startups were unable to quickly

²⁰ See, e.g., Andrew E. Russell, *Court Rejects Mavexar Attorneys’ Motions to Withdraw, Grills Them on Efforts to Hide Mavexar from Court*, IP/DE (June 8, 2023), <https://ipde.com/blog/drama-court-rejects-mavexar-attorneys-efforts-to-withdraw-grills-them-on-efforts-to-hide-mavexar-from-court/>

take advantage of the first-come-first-serve program.²¹ The USPTO should avoid thresholds and definitions for “substantial relationship” that treat all startups that share investors as if they are related, coordinating entities in front of the PTAB.

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Thank you again for the opportunity to provide feedback and responses to the proposals outlined in the ANPRM. Engine hopes to be a resource as the agency works to ensure the patent system works for startups and innovators of all sizes and from all communities, including those that don’t have the time and resources to engage with the agency directly. We urge the Office to abandon the majority of the proposals in the ANPRM that would restrict access to IPR, along the lines discussed above, and instead continue to prioritize patent quality.

²¹ Erica Pederson, *Start-Ups Face Uncertainty Regarding PPP Loan Eligibility*, Columbia Business Law Review (April 15, 2020), <https://journals.library.columbia.edu/index.php/CBLR/announcement/view/305>